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COMPETITIVE INSIGHTS *

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**PRIVATE LABEL MANUFACTURERS ASSOCIATION EUROPEAN MARKET TRADE SHOW
AMSTERDAM, THE NETHERLANDS
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EXECUTIVE SUMMARY

The purpose of this analysis is to provide Canadian food and beverage private label manufacturers with a snapshot of trends and market opportunities associated with the Private Label Manufacturers Association European (PLMA) European Market Trade Show, that took place on the 22, 23 and 24th of May, in Amsterdam, the Netherlands. Additional information on the PLMA Trade Show and market opportunities can be obtained from Gilbert Arnold, Senior Market and Trade Officer, of the Agriculture and Agri-Food Canada, Guelph, Ont., who walked the Show along with 4 Canadian companies and prepared this analysis.

Major product themes at PLMA included: dairy products, ice cream, desserts, fresh baking goods, baking mixes, non alcoholic beverages (warm and soluble beverages), alcoholic beverages, sandwich, dips and paste, bread, pizza, cake (frozen and cooled), meat, fish, vegetable, potato products, breaded products, finished meals (frozen and cooled), salty snacks, crackers, nuts, fruits, dressings, dips, herbs and spices, fancy oils, sauces, sweet goods (chocolates, chocolate products, biscuits, home delivered baking goods, fancy breads and bagels, sweet sauces, cereals, rice, nutraceuticals, health, organic and dietetic products, fruit and vegetable (packs and frozen); soups and other frozen/chilled products perishable products, herbal medicines, vitamins, domestic animal foods and nutraceuticals.

Major trends in the European food and beverage private label sector include a demand for high quality and price competitive products that are varied, distinctive (in most cases unique), tasty, fresh, readily available and produced efficiently. The PLMA European Market Trade Show showcased private label food, beverages, health and beauty care, household and kitchen products, and general merchandise. Ontario companies Culinary Destinations, Jaycee Herbs and Palace Foods walked the show while Quebec Company Bariatrix International Inc. had a well-visited booth at the PLMA. A total of 1,050 food and 410 non-food companies from over 35 countries were represented at the Trade Show. The major emphasis in the pre-show seminars were marketing trends and opportunities, packaging and buying trends. The major emphasis on the trade show floor was on chilled and frozen products.

* A series of periodic reports that provide observations and insights on market conditions, market structure or other related marketing or investment aspects that may influence the marketing or investment strategies and decisions taken by Canadian companies in their pursuit of export opportunities and business growth (aussi disponible en français)

Introduction

Private label has achieved unprecedented acceptance across Europe, with shoppers becoming more aware of retailer private label and planning to increase their purchases of them, according to a new consumer research study conducted for PLMA by Market & Opinion Research International (MORI), the internationally respected research firm.

These findings are contained in the study, "Consumer Attitudes Towards Private Label in Europe," which surveyed 5,000 main household shoppers. The study is the first comprehensive research to analyse and compare consumer attitudes towards private label across Europe and covers Belgium, France, Germany, Great Britain, Italy, the Netherlands and Spain.

Geographic Overview; Private label in Europe:

In Holland private-label products have a 20-30% share. By way of comparison, private label products have a 41 percent share in the United Kingdom and a 12 percent share in Spain. The United Kingdom presents a model for development protocol and continues to be an excellent expanding market for all Ontario products that are price competitive. Private Label or Store brands have advanced the furthest in the United Kingdom, where they account for about 38 percent of all units sold and as much as 75 percent in some categories. Consolidation among British food retailers sped development. Five chains command 75 percent of food sales in the United Kingdom. Elsewhere in Europe, store brands in Germany, France, Belgium and the Netherlands have advanced to a stage similar to the United States. In eastern Europe, there are some attempt at developing private label in Poland.

Netherlands:

Albert Heijn is a a major private label retailer in Holland., The German supermarket chain Lidl, a newcomer in the Dutch market, intends to open 30 stores in the Netherlands. Lidl sells low-priced, mostly private label products. It is also rumored that WalMart, Carrefour (France) and Ryohin Keikaku (Japan) are interested in opening stores in the Netherlands.

Spain:

Spanish consumers prefer buying frozen products from established and well-known suppliers. Nevertheless, about 20 percent of the frozen products sold in Spain are commercialized through the private labels of the main distribution chains.

In Spain breakfast cereals are concentrated within a few companies: Kellogg's (65.2 % of total sales) is by far the leader in this sector, followed by Nestle-General Mills (11.3 %), Pascual (4.9 %). The Spanish herbal market is dominated by two companies CPC Espana and Hornimans. More than 70 percent of the imported beer in Spain is sold in cans and commercialized through the private labels of the main distribution chains. Demand for pet food in Spain has grown at an average rate of over 9 percent during the last few years, and this growth rate is expected to continue into the future. Dog food comprises the largest segment of the pet food market (75 percent), followed by cat food (20 percent) and bird/fish food (5 percent).

France:

In 1996, the stability in practically all food prices (+1.2 percent on average), contributed to the increase in food consumption. Price stability may be partly explained by the decrease in prices for certain raw agricultural products, as well as the development of supermarkets' private label products encouraging manufacturers of branded products to keep their prices stable to remain price competitive.

Most fruit juices and nectars in France are distributed through super and hypermarkets, where there is tough competition between supermarkets' private labels and manufacturers branded products. What is usually true for juices usually goes for bottled water.

In spite of their efforts to consolidate, many traditional French wholesale food companies continue to lose ground to large super and hypermarket chains, as well as to "hard discounters" which are increasingly expanding their own wholesale activities. Also, most of the major supermarket companies produce their own "private labels" for distribution, which effectively reduces the business for traditional wholesalers. This situation shows some potential but requires investigation.

Italy

The Italian consumer is quality conscious and one of the major complaints is that the quality is not constant or assured through certification. Private labels are becoming more and more popular, although price remains the main driving factor in selecting a private label over a branded product. Market Share of Private Labels in some food sectors varies from 16.1% for Canned vegetables, 11.1% for oils (market for canola ?), averaging at 3.1% for beverages and 4.3% for packaged foods.

Belgium

According to AC Nielsen, private-label products have doubled their market share over the last 12 years. Committed to building a wide range of quality in-house brands, the major chains typically work with suppliers to develop unique and competitive items. The GIB group introduces an average of 300 new store brand products per year and is always on the look out for new product ideas.

Norway

A recent survey showed that the private labels have a market share of about 5 per cent in the grocery stores. In the consumers own chain, NKL, the share is as high as 10 percent. Compared with other nations, the private label market share is low, but represents a potential for exporters. The goal for the largest four retail chains is to have a market share of their own private label of about 20 percent.

Portugal

The large stores are carrying more and more private label products on their shelves. Food traders are becoming more inclined to use price-quantity promotional campaigns. Thus, it is becoming increasingly difficult for local manufacturers to achieve good profit margins. Competition also heats up among Portuguese and foreign firms over extremely expensive hypermarket shelf space. Suppliers are fighting to maintain and expand exposure of their

products as the number of hypermarkets increases. The struggle is getting even more intense as larger stores continue to carry more private label products, constricting shelf space even more for branded products.

1999 Figures;

The largest gains in the percentage of consumers who were more aware of private label were posted in Great Britain (56%), Spain (42%) and France (38%). Increased awareness is leading to more purchasing, reports MORI. The biggest gains in percentage of consumers planning to increase their purchases of supermarkets private label products were the Netherlands (19%), Great Britain (17%) and Germany (17%).

Private label's long-term future appears especially bright. Young consumers (those up to age 25) are by far the most ardent supporters of private label, saying they are more aware of private label and plan to increase their purchases.

Key findings on consumer attitudes across Europe include:

- The quality of products is now virtually equal in importance to price as a factor in the selection of private label products.
- Four of ten shoppers across Europe would like their supermarket to provide a wider variety of private label products.
- About one-quarter of all shoppers' total market baskets are made up of private label products.
- More consumers said they were now "less likely" to buy manufacturers brands than those who said they were "more likely" to buy them, compared to a year earlier.

Brian Sharoff, President, PLMA, said "The MORI study confirmed the potential for growth in private label across Europe, both in countries with significant private label penetration and those where private label is in its early stages of development."

Walking the Show;

Organic Foods

Last year the pre-show conference outlined the increased demand for organic and health food and the apparent shortage of EU sources. The trend begun last year has continued lead by the UK, Sweden and Denmark.

Organic produce in all categories, fresh and dry goods, is one of the fastest growing areas within food retailing. All the UK supermarket groups reintroduced or rejuvenated their organic ranges within the last two to three years and have now set ambitious forecasts for growth in organic lines and market share.

Within the last 12 months, the food scares in Europe have taken a global dimension with the controversy over genetically modified organisms. Although having been in existence for some time, "GMO" foods or food

ingredients suddenly took on a whole new dimension when the national newspapers began reporting on scientific reports that raised fears over their safety.

All of the major UK food retailers either sought to take the lead or were forced to follow quickly in pledging to ban all GMO ingredients from all ranges carried under their own labels. The first food retailer to have so far banned all GMO ingredients from its store brands is Iceland, with its now famous "no Frankenstein foods campaign" with the other major retailers committed to banning it and until this can be fully implemented, relying on effective labeling.

The net effect of these continued waves of food scares and crises has been to undermine consumer confidence to the extent that shoppers have begun turning to sources of food they can trust and organic meets that perfectly, in as much as there is a certification system with definite standards. The major supermarket groups are perceived by the public as well placed to meet that demand for trust and their sales of certified organic produce are startling and dramatic:

The consumer groups that originally drove demand for organics-the affluent "Foodies" in their 20s, have now been joined by a larger, more experienced group: young families. This latter group is concerned with food safety, but also with taste and value for money. For the major supermarkets seeking to continue dominating this important category the critical factors are sourcing, price and investment. Imports currently account for 70-75% of organic retail sales. As noted last year, supply simply cannot keep up with demand for organics, so much so that the supermarkets are having to not only invest in the promotion of their own label organic product lines, but they are also having to invest in their suppliers to help speed up the conversion of more land. UK based Sainsbury's, who sell a quarter of all organics sold throughout supermarkets, feels that the market needs to stabilize as its current growth is based on scares, in turn leading to impulse buying. This means that the growth of the market is unpredictable and its sustainability uncertain. Availability of organic produce across all stores and consistency of supply would be an achievement given the current variances in available supply.

In 1994, UK based Tesco sold just 5 million pounds sterling (\$11 million Canadian) worth of organic goods. That figure had shot up to 100 million pounds sterling (\$222 million Canadian) in 1995 to 260 million pounds sterling (\$577 million Canadian) in 1997. 1998 witnessed a 40% increase in sales to 370 million pounds sterling (\$821 million Canadian).

Organics are dominated by demand for fruit and vegetables (50% of sales) followed by dairy products, cereals and baby food. The organic sector in the UK is set to be one of the most dynamic areas with over 20% annualized growth now being forecast so that the sector could be worth \$1 billion Canadian by 2002. Supermarkets are currently experiencing a 40% annual growth in organic sales.

Price will continue to also be a factor. At the beginning of this year, British food retailer ASDA-now owned by Wal-Mart announced that it was expanding its range of organics and the number of stores selling the products. There is a possibility that they will remove the price premiums on organics which can range from 20 to 100% in some lines.

The effect of this has been to unnerve the whole industry. With all retailers sensitive to the accusations of overcharging consumers in many categories, they argue that the price premium on organics is justified to help support the suppliers. Organic production means that farmers and producers will never beat conventional farming yields. The opportunity offered by the growth in organic produce is underlined by the regional supermarket chain

Waitrose who has stated that its ultimate intention is to stock only organic fruit and vegetables.

Organic food booths generally placed emphasis on packaging that associated the product with small scale agricultural practices or placed a great emphasis on the "certified organic" seal.

Products that attracted a buyers were private label organic sauces, soup mixes, ready-made meals, deserts, fresh, frozen or canned fruits and vegetables.

Thus the booths of organic food companies were well visited and it is expected that this type of product presents good potential for Canadian companies as long as they can remain price competitive within the tariff and duty structure.

Healthy Foods-Functional Foods

Cereal bars with fruit, diet bars and drinks along with energy drinks and soy products are among the health products that are sought out and where Canada can be price competitive foods that are being successfully private labeled in the EU. It would appear that the tariffs are manageable and permit a good profit margin, according to Canadian exporters. GMO- Free soy drinks, desserts, soy meat substitutes and related ingredients are also becoming very popular and ingredient manufacturers had booths that underlined the "natural" aspect of the ingredient..

Fresh Culinary Herbs, Specialty Salad Oils and Condiments

According to one of the Canadian companies walking the Show there was demand for fresh organic and natural herbs. The store tours and floor walking at PLMA indicated that Europeans enjoy exotic condiments and creative additions to their salads. The tendency to ready made meals will enhance this market as will the ever increasing popularity of chilled entrees, soups and desserts.

Frozen and Chilled Foods

Frozen and chilled foods such as chinese egg rolls, indian specialties, breaded fish, pizzas and ready made meals are a fairly big item at PLMA Amsterdam. Certain European companies are copying existing Canadian pizza with little change in the name. A store tour confirmed the competitiveness of most Canadian products in terms of price and quality although the Canadian goods are somewhat upper scale and address the expanding ethnic foods market. However, the duty and tariff structure would price most Canadian frozen "heat and eat" products 10-15% higher than their European counterparts despite a 35% lower retail price.

Beverages and Frozen Foods; PL Items Noted During Store Visits in Amsterdam

Super De Boer Private Label Lines;

While hot and cold drinks may be a clear and distinct category-or categories-with very specific products in the US market, that is not necessarily the case in Europe. At least not in the BENELUX countries. For example, at Super De Boer, a Dutch supermarket chain with 450 stores and a market share of approximately 10% have the following drink categories; in hot drinks, (30 private labels), which are divided into three sub-categories: coffee (10), tea (15) and instant (5). There are about 50 basic private label items in the cold drinks category: disregarding variations in sizes and flavors. These are, in turn, divided into four sub-categories: soft drinks (10), beer (2) and wine (16): syrups - also known elsewhere as "dilutables" -(8): and juices (9). The market share of Super De Boer's hot drinks is between 20 - 25 %. The market share of cold drinks is generally lower, between 15 - 20%. Juices are about 25%, wine is between 20 - 25% and beer is about 5-10%.

Super De Boer has a wide range of wines from different regions-for example, Bulgaria, France and South Africa-with extremely attractive packaging. They also offer unique private label coffees with special ingredients and flavouring. Like most of the Super De Boer private labels, wines and coffees are prominently displayed at eye level.

Super De Boer promotes their private label products in several different ways; by organizing tastings in their stores; coffees, colas and juices- are spotlighted and customers are encouraged to taste and rate them. The results are then included in national advertisements, four times a year, that are centered around the theme of testing.

Private label products Super De Boer will be introducing in the near future include soft drinks (lemon lime and orange with "light" variants), and about 20 items in the hot drink category: herbal teas, coffees, and instant drinks.

Albert Heijn Private Label Lines

At Albert Heijn, the Netherlands's top retailer, there are some major projects as far as private labels are concerned. At the beginning of April 2000 they launched their first ever line of private label soft drinks: cola, orange and lemon lime, both regular and light, in sizes ranging from 1.5 liter bottles to 15 cl cans. There were in store tastings and, in the middle of April, television commercials alerting the public to the event. Like most of Albert Heijn's private labels, the soft drinks were extensively pre-tested before being introduced and testing is an ongoing program even when the product is on the shelf.

PLMA Workshops

There were 3 food related workshops over the three-day period with presentations by industry professionals who explored the newest and latest technologies and systems. These seminars provided an excellent opportunity to obtain knowledge of the current and the evolving issues that have and will have long term ramifications for the private label market in Europe.

There were core sessions on private label consumer patterns, packaging, consumer purchasing habits, pricing

criteria, types of private label products, types of retailers, consumption per capita per EU Member State, new products and nutraceutical/functional foods.

The key organizer for the event was Private Label Manufacturers Association. From a base of 20 founding member manufacturers in 1979, PLMA has grown to become a worldwide organization of over 2,800 companies. Store brands have gained steadily over the past two decades as well, and continue to set new records for both dollar and unit market share. At a pre-show presentation PLMA issued new data from AC Nielsen demonstrating that Britain is still the most sophisticated market for retailer label but Continental Europe is catching up. Measured over approximately 300 grocery categories, Nielsen found a clear majority of categories in France, Germany, Italy and Spain had experienced an increase in retailer label market share of 0.2% or more. But the situation in the UK, measured across 600 grocery categories, indicated an overall level trend. Total retailer label share in the UK has reached 44.5%, while most other European countries are in the range 20% to 25%.

WORLD TRENDS; AC NIELSEN STUDY

Private-label products continue to gain share against well-known manufacturer brands, especially in Europe where store brands already enjoy relatively high penetration, a new study from AC Nielsen shows. The study, indicates that, on average, private-label products held an overall 14% share of the market for fast-moving consumer goods in 1998, up slightly from 1997. The findings are based on AC Nielsen's examination of up to 57 product categories in 30 countries.

In 1998, each of the five countries with the greatest private-label share growth (a share point or more) were located in Europe, which already has the highest penetration of private-label brands in the world. Less-developed markets, such as those in Latin America and Eastern Europe, also saw growth, although the gains were more modest and were achieved on relatively small base shares of less than 3%.

AC Nielsen's study, "International Private Label Retailing - Indicators and Trends", found that, on a regional basis, private-label products enjoyed the highest average volume penetration in Northern Europe, at 24.4%, followed by North America, (i.e., U.S. and Canada, at 18.7%). Private labels had the lowest penetration in Eastern Europe, with only a 1.4% share of the market. At the country level, Switzerland had the highest private-label penetration, at 54.1%, while Brazil and Argentina had the lowest penetration - each under 1%. In the United States, private-label products held a 13.4% share of the market. The country with the largest private-label share gain in 1998 was Norway, which went from an 11.3% share to a 13.6% share. Other countries with significant share growth were Germany (+1.5 points), Spain (+1.4 points), France (+1.1 points) and Belgium (+1.0 point). Private labels already had a strong position in each of these markets, with penetrations of 14% to 36%.

Among the four broad categories studied - food, drinks, personal care, and household products - food had a private-label penetration of 16%, second only to household products with 18%. Within food, private labels enjoyed the highest penetration in frozen potato fries (34.5%), bottled and canned vegetables (32.5%), jams, jellies and marmalade (32.4%), and packaged rice (29.7%). On the other hand, confections such as chewing gum and chocolate candies saw the lowest private-label penetration.

In the drinks category, one of the most surprising findings was the relatively high penetration private labels had

among distilled spirits, including gin, cognac, vodka, rum and brandy. Overall, private labels had a 15.7% share of the distilled spirits category in the 15 countries that reported private-label sales of spirits. Conversely, carbonated soft drinks and beer had the lowest private-label shares in the drinks category, each with less than 10%.

The AC Nielsen study also examined the pricing of private labels versus manufacturer brands. In the 30 countries studied, private labels sold at an average 30% discount to manufacturer brands. The greatest discounts were in Australia, where private labels were 43% cheaper than mainstream brands. The smallest discount was 9% in Finland.

CONCLUSION

Consumer awareness of Canadian products is increasing slowly and opportunities exist for further promotion of Canadian goods through store promotions and demonstrations. Keeping in mind that the phenomenal expansion of the organic market in the UK is probably the beginning of a trend that would also include "healthy foods" and foods with health connotations, ie specialty breads, low calorie drinks, soy foods (gmo-free) for those who cannot afford the premium on organic foods, usually anything from 10 to 35%. Here Canadian products could compete based on our lower cost of production if the size of the order is large enough to ensure a profitable margin after duty and tariffs. Most processed food products can be priced up to 10-15% higher than their European counterparts despite a 35% cost of production due to duties and tariffs.

The major ports such as Rotterdam are the gateway to the EU. Holland and Belgium are major repackaging centers for the products shipped in to these ports.

It is also interesting to note the expansion of the Private Labeling of alcoholic beverages such as whiskeys, ports, liqueurs, wines beers and coolers. Holland has no domestic wine industry and the store shelves are stocked with a variety of wines from all countries. The situation is similar for beer although the Dutch are fond of their domestic brands.

The juice market is also expanding at a similar rate to the health food market, especially for blended juices that provide a variety of tastes at an affordable price. Fruit juices with light carbonation and a reduced sugar content and/or vitamin enhanced are beginning to become very popular.

This visit to PLMA has confirmed the opportunities outlined in last year's report and has pointed to some new ones. Overall, there is an increasing use of private label in EU stores especially in the categories of frozen vegetables, fruits, herbs and condiments, ethnic foods, organic foods, health and dietary preparations and beverages (alcoholic and non-alcoholic). Store visits in the Amsterdam area have shown a varied buying pattern in the Dutch consumer and an interesting variety of products and presentation in different Dutch chain stores. At this time, several Canadian companies have indicated an interest in having a booth at the May 2001 show.

For More Information on the EU, Private Label Food and Beverage Market and/or the next PLMA show in May 2001, please contact Gilbert Arnold, Senior Market & Trade Officer, MISB Ontario Regional Office, phone 519-837-5850- fax 519-837-9782, e-mail arnoldg@em.agr.ca.